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SUBJECT: NIGERIA: AMBASSADOR ENCOURAGES OIL COMPANIES TO BROADEN THEIR POLITICAL BASE

¶1. (SBU) Summary: Ambassador and Lagos Consul General attended a dinner hosted by the Regional Vice President for Shell Africa, Ann Pickard on February 26. The dinner brought together the managing directors and senior executives from Chevron, Total, Schlumberger, Halliburton and ExxonMobil. The executives noted their concern with the Nigerian petroleum industry and local content bills, which the executives claim would discourage investment and petroleum development in Nigeria. The Ambassador said to effectively engage the GON, the companies need to reach out to Nigerian ministers and officials other than those with pure energy or security portfolios. She also said the companies need expand their advocacy with key ministries (such as Finance and Commerce) and the National Assembly, highlighting the negative impact the legislative bills will have on Nigeria's finances and future rather than only concentrating on the impact on the industry. The executives took this on board and noted they had not thought to advocate outside of their normal channels. End Summary.

¶2. (SBU) On February 26, the Ambassador and Consul General attended a dinner hosted by the Regional Vice President for Shell, Ann Pickard. In attendance were Andrew Fawthrop, Managing Director of Chevron Nigeria; Mark Ward, Managing Director of ExxonMobil Nigeria; Steve Fulgham, Managing Director of Schlumberger Nigeria; Steve Segota, Managing Director of Halliburton Nigeria; and Guy Maurice, Managing Director of Total Nigeria.

¶3. (SBU) During dinner, the executives expressed their growing frustration with the state and direction of the Nigerian petroleum sector. Halliburton and Schlumberger said a proposed local content law would, as written, severely impact their operations and force them to re-think their Nigerian business model. While neither company is considering pulling out of Nigeria completely, both said the legislation, nominally intended to increase Nigerian employment and participation in oil and gas activities in country, would likely have the opposite effect, forcing oil service companies to scale back operations in Nigeria in the face of punitive quotas, contract uncertainty, and possible loss of intellectual property rights associated with cutting edge equipment. In general, local content laws that are purely quota based would raise the already significant cost of doing business in the Nigerian oil sector, further discouraging investment and reducing local employment, the executives claimed.

¶4. (SBU) Pickard of Shell said the upstream oil producers were united over concerns about certain aspects of the new petroleum industry bill, an omnibus piece of legislation designed to overhaul Nigeria's petroleum sector. The industry is worried that a lack of detail in key provisions in the bill dealing with fiscal terms and joint venture contract structure will further delay investment decisions on current projects and reduce interest in future projects. Natural gas pricing and policy remains problematic and the new bill fails to address industry concerns by keeping regulated gas prices below the marginal cost of production and eliminating special fiscal incentives that targeted development of natural gas.

¶5. (SBU) The Ambassador responded that a senior GON petroleum official told her that he did not support the local content bill as currently written and wanted legislation that was less quota driven. She noted the Mission's economic team was engaged on the local content legislation on a variety of fronts. On all pending legislation, the Ambassador recommended that the companies reach out to influential Nigerian ministers with portfolios outside the narrow confines of oil, gas, and power. She specifically highlighted the Minister of Finance as someone who would both understand the potential negative impact on GON revenues from poorly designed oil legislation and could have the political clout to effectively raise the issue at the Presidential Villa. Moreover, the Ambassador told the executives that when making its case for revising legislation, the industry had to also highlight, in addition to the impacts of the bills on energy businesses, the potential damage poor

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petroleum policy would have on GON revenues and the Nigerian people.

¶6. (SBU) Comment: The National Assembly has a lot of legislation on its plate, but we are hard pressed to identify any significant legislation, other than budgets, it has passed since 2007. The petroleum industry bill is relatively new, having been introduced into the National Assembly in January 2009. The local content bill has been around in various iterations for several years. While it gained momentum in early and mid 2008 when oil prices were at record highs, the legislation appears to have stalled in recent months, although the National Assembly's legislative process is not always clear and a bill's status at any given moment can be hard to ascertain. As we've noted before, oil companies in Nigeria are still coming to grips with how to engage the Yar'Adua administration, even two years into its tenure. The industry needs to build broader alliances with ministries and other power bases beyond its traditional interlocutors if it hopes to engage the GON effectively and turn some of these issues in its favor. This applies not only to petroleum related legislation, but to security issues as well. End Comment.

¶7. (U) This cable cleared with Embassy Abuja
BLAIR